

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Akron Fairgrove Wastewater System	County Tuscola
Fiscal Year End 3/31/06	Opinion Date 7/20/06	Date Audit Report Submitted to State 8/10/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☒ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds. *N/A*
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute. *N/A*
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. *N/A*
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No letter of recommendation required	
Other (Describe)	<input type="checkbox"/>	No other reports required	
Certified Public Accountant (Firm Name) Nietzke & Faupel P. C., CPAs		Telephone Number (989) 883-3122	
Street Address 41 E. Main Street		City Sebewaing	State MI
		Zip 48759	
Authorizing CPA Signature <i>Jo Ann E. Lakie, CPA</i>		Printed Name Jo Ann Lakie	License Number 17493

**BOARD OF OPERATIONS
AKRON FAIRGROVE
WASTEWATER SYSTEM
AKRON, MICHIGAN**

**FINANCIAL REPORT
MARCH 31, 2006**

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

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REPORT OF INDEPENDENT AUDITORS

To The Honorable Board of Operations
Akron Fairgrove Wastewater System
Akron, Michigan

We have audited the accompanying financial statements of the business-type activities of the Board of Operations-Akron Fairgrove Wastewater System, Akron, Michigan as of and for the year ended March 31, 2006, which comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of Operations-Akron Fairgrove Wastewater System, Akron, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Operations - Akron Fairgrove Wastewater System, Akron, Michigan, as of March 31, 2006 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages ii through iii are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

July 20, 2006

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2006

Introduction

The discussion and analysis of Akron Fairgrove Wastewater System's financial performance provides an overview of the Board of Operations financial activities for the year ended March 31, 2006. This report is a part of the Board of Operations Annual Report.

The purpose of the Board of Operations is to supervise the operation of the wastewater system jointly owned by the Village of Akron and the Village of Fairgrove. The Board of Operations is composed of two members from the Village of Akron and two members from the Village of Fairgrove.

Using the Annual Report

This annual report consists of a series of financial statements as follows:

- ▶ **The Statement of Net Assets** presents information on all of the Board of Operation's assets and liabilities, with the difference between the two reported as net assets.
- ▶ **The Statement of Revenue, Expenses and Changes in Net Assets** presents information showing how the Board of Operations net assets changed during the most recent year. All changes in net assets are reported on an accrual basis, that is, the event is recorded in the accounting records when the underlying event takes place regardless of the timing of the related cash flows.
- ▶ **The Statement of Cash Flows** presents the financial activities of the Board of Operations on a cash received and cash paid basis. This statement also reconciles the change in cash accounts for the Board of Operations from the prior year to the current year.
- ▶ **The Notes to the Financial Statements** provide additional details underlying the data provided in the financial statements.

Financial Highlights

The Statement of Net Assets outlines the assets, liabilities and net assets of the Board of Operations. The net assets increased from \$73,011 in the prior year to \$85,814 in the current year, an increase of \$12,803. The current year net assets include:

Unrestricted current assets (cash, investments, and receivables)	\$42,246	49.23%
Capital Assets	<u>43,568</u>	<u>50.77%</u>
Net Assets	<u>\$85,814</u>	<u>100.00%</u>

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2006

The change in assets from the prior year were:

Unrestricted current assets (cash, investments, and receivable)	\$10,978
Capital Assets	<u>1,825</u>
Total Increase in Assets	<u>\$12,803</u>

The total liabilities decreased from \$573 to \$358.

The change in net assets of \$12,803 as shown on the Statement of Revenues, Expenses, and Changes in Net Assets includes:

Operating income (operating revenues less operating expenses)	\$12,348
Non-Operating Revenues/Expenses	<u>455</u>
Change in Net Assets	<u>\$12,803</u>

The Board of Operations realizes nearly all of its operating revenue from two sources: charges for services to the two Villages. Charges for services in the amount of \$25,877 comprise 98.2% of the revenue. The relative percentages for sources of revenue did not change significantly from one year to the next.

During the fiscal year 2006 there were no significant variations between the actual revenues and expenses and anticipated revenues and expenses as approved by the Board of Operations. The overall financial position of the Board of Operations has not significantly changed from the prior year as the agreement for services and funding between the Board of Operations and Villages has remained fundamentally the same.

Requests for Information

This financial report is designed to provide residents of both the Village of Akron and the Village of Fairgrove with a general overview of the Board of Operation's finances and to show accountability for the funding it receives. Questions concerning any of the information in this report should be addressed to:

Robert Hill, Chairman
Michael Krause, Treasurer
Akron Fairgrove Wastewater
Akron, MI 48701

BASIC FINANCIAL STATEMENTS

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

**STATEMENT OF NET ASSETS
MARCH 31, 2006**

Current assets:

Cash in bank	\$ 33,761	
Accounts receivable	<u>8,843</u>	
Total current assets		\$ 42,604

Non-current assets:

Capital assets:

Building and lagoon improvements	45,795	
Equipment	12,379	
Accumulated depreciation	<u>(14,606)</u>	
Total capital assets, net of accumulated depreciation	<u>43,568</u>	
Total non-current assets		43,568
Total assets		<u>86,172</u>

Current liabilities:

Accounts payable	<u>358</u>	
Total current liabilities		<u>358</u>

Net assets:

Investment in capital assets	43,568	
Unrestricted	<u>42,246</u>	
Total net assets		<u>\$ 85,814</u>

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
YEAR ENDED MARCH 31, 2006**

OPERATING REVENUES:

Charges for services	\$ 25,877	
Total operating revenue		\$ 25,877

OPERATING EXPENSES:

Depreciation	3,427	
Insurance	1,267	
Lagoon analysis	1,600	
Miscellaneous	398	
Operating supplies	442	
Permits	400	
Professional fees	700	
Repairs	89	
Salaries and board fees	5,100	
Utilities	106	
Total operating expenses		13,529
Operating income		12,348

NON-OPERATING REVENUES:

Interest income	455	
Total non-operating revenues		455

Change in net assets	12,803
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NET ASSETS AT APRIL 1, 2005	73,011
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NET ASSETS AT MARCH 31, 2006	\$ 85,814
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BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

**STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from villages for wastewater services	\$ 23,686
Cash payments to employees	(5,100)
Cash payments to suppliers for materials and services	<u>(5,217)</u>
Net cash provided by operating activities	\$ 13,369

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of assets	<u>(5,252)</u>
Net cash (used) by capital and related financing activities	(5,252)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>455</u>
Net cash provided by investing activities	455

Cash at April 1, 2005	<u>25,189</u>
Cash at March 31, 2006	<u><u>\$ 33,761</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET
CASH FLOWS FROM OPERATING ACTIVITIES:**

Operating income	\$ 12,348
Add depreciation expense	3,427
Changes in current assets and current liabilities	
(Increase) in current assets:	
Accounts receivable	(2,191)
Increase in current liabilities:	
Accounts payable	(215)
Net cash flows from operating activities	<u><u>\$ 13,369</u></u>

The accompanying notes are an integral
part of the financial statements.

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Board of Operations-Akron Fairgrove Wastewater System was formed March 11, 1980, as a result of a contract between the Village of Akron and the Village of Fairgrove regarding their joint ownership and operation of their wastewater system. The Board was established to supervise the operation of the system including maintenance of all facilities and equipment. In return the Board bills the Villages on a quarterly basis for their proportionate share of expenses based on metered amounts of wastewater collected for treatment by the facility.

The Board of Operations is composed of two members from the Village of Akron and two members from the Village of Fairgrove.

The financial statements of the Board have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies are described below.

Principles Determining Scope of Reporting Entity:

In evaluating how to define the Board for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Board is able to exercise oversight responsibilities. Based upon the application of these criteria, the Board has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Board.

Measurement Focus, Basis of Accounting and Basis of Presentation

The Board of Operations is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or an economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

The utility follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial activities of the Board of Operations-Akron Fairgrove Wastewater System are recorded in one fund categorized as an Enterprise Fund. Enterprise Funds are of the Proprietary Fund Type and are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Cash and Cash Equivalents:

Cash and cash equivalents of the Board of Operations-Akron Fairgrove Wastewater System include all deposits with financial institutions. Deposits with financial institutions are fully insured by the FDIC.

Capital Assets:

Capital assets are defined by the Board of Operations as assets with an initial, individual cost of more than \$500. Capital assets of the Board of Operations are reported at cost or the fair market value at the time of contribution to the Board of Operations. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	Years
Test Wells	20
Lagoon Improvements	15 – 20
Equipment	7

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 2 – CASH DEPOSITS:

Deposits are carried at cost. Deposits of the Board of Operations are made in banks in the name of the Board of Operations Treasurer. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the Board Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase. The Board's deposits are in accordance with statutory authority.

At March 31, 2006, the carrying amount of the Board's deposits was \$33,761 and the bank balance was \$33,761. Of the bank balance, \$33,761 was covered by federal depository insurance.

NOTE 3 – CHANGES IN CAPITAL ASSETS:

	BALANCE MARCH 31, 2005	ADDITIONS	DISPOSALS	BALANCE MARCH 31, 2006
CAPITAL ASSETS				
Building and lagoon improvements	\$ 45,795			\$45,795
Equipment	<u>7,127</u>	<u>\$5,252</u>		<u>12,379</u>
TOTAL CAPITAL ASSETS	<u>52,922</u>	<u>\$5,252</u>		<u>58,174</u>
Less: Accumulated depreciation	<u>(11,179)</u>			<u>(14,606)</u>
NET CAPITAL ASSETS	<u>\$ 41,743</u>			<u>\$43,568</u>

NOTE 4 – RELATED PARTY TRANSACTIONS:

The Board operates a raw sewage treatment facility (lagoon) for the Village of Fairgrove and the Village of Akron. Although the Board of Operations is not considered a component unit of the two villages, it is considered a jointly governed organization. The Board of Operations generates revenue by quarterly user charges based on gallons pumped by the two Villages. The Village of Fairgrove user fees amounted to \$14,877 and the Village of Akron user fees amounted to \$11,000 for the fiscal year ended March 31, 2006. The related accounts receivable for the Village of Fairgrove is \$4,735 and for the Village of Akron is \$4,109 at March 31, 2006.

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006**

NOTE 5 - RISK MANAGEMENT:

The Board of Operations – Akron Fairgrove Wastewater System purchased commercial insurance coverage for all general liability coverage. Significant losses are covered by commercial insurance for all major programs. For the year ended March 31, 2006, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.